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ABSTRACT

The purpose of this paper is to investigate the potential role of selected fiscal incentives in attempting to achieve greater racial and socioeconomic integration through open enrollment programs. Three premises underlie this paper: first, that past experience with district wide unrestricted (color-blind) open enrollment plans indicate that this approach has not generally resulted in increased integration in individual schools even though significant proportions of the total student population voluntarily transferred to nonneighborhood schools; second, that if school integration can be achieved through a program of voluntary compliance, that such a program is preferred to a nonvoluntary program which accomplishes the same objectives at a similar cost; and third, that our society has adopted the goal of integrating our public schools as a necessary condition for the achievement of an integrated society. The fiscal incentives discussed in this paper are of two major types: adjustments in the direct cost to the family of utilizing the transfer option through a system of transfer fees and bonuses, and adjustments in property tax bills for school purposes in integrating neighborhoods through adjustments in state aid formulas. In each case, the broad outline of a specific plan is presented and evaluated in terms of its probable effectiveness. (Author/JM)

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OPEN ENROLLMENT AND FISCAL INCENTIVES

(To be presented at the 1 April 1975 meeting of the American Educational Research Association in Washington, D.C.)

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INTRODUCTION

During the 1960's many large city school systems adopted policies permitting students to transfer from their neighborhood school to another school they found more desirable if the second school was not over-crowded. The adoption of these Open Enrollment plans appears to have been motivated by the desire to counteract school segregation resulting from the traditional neighborhood school in a community with racially segregated residential neighborhoods and the desire to allow students with special educational needs and interests to take advantage of specialized curriculums offered only in particular schools.[1] The purpose of this paper is to investigate the potential role of selected fiscal incentives in attempting to achieve greater racial and socioeconomic integration through Open Enrollment programs.

In the vast literature on desegregation, one often encounters the view that desegregation is not a racial issue, rather that it is an issue concerning educationally advantaged and educationally disadvantaged children. That is, that truly integrated schools will contain representative mixtures of students from all ethnic and socioeconomic backgrounds and not just meet some predetermined criteria of racial balance alone.[2] This enlarged view of the problem of segregation poses additional difficulties because of our present lack of generally accepted objective criteria which can be used to distinguish between advantaged and disadvantaged students. Nevertheless an attempt will be made in this discussion to focus on the broader conception of the objective.

Three premises underlie this paper: first, that past experience with district

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[1] Open Enrollment is only one of several plans with similar objectives. For a discussion of Open Enrollment and five other related plans see: Robert W. Heller, "Desegregation, Integration, and Urban Schools," in Frank W. Lutz (ed.), Toward Improved Urban Education (Worthington, Ohio: Charles A. Jones Publishing Co., 1970) pp. 48-49.

[2] Recent examples of this argument are found in: Leonard P. Strickman, "Desegregation: The Metropolitan Concept," The Urban Review, Vol. 6, No. 1 (Sept./Oct. 1972), pp. 18-23; Harrell R. Rodgers, Jr. and Charles S. Bullock III, "School Desegregation: Successes and Failures," Journal of Negro Education, Vol. 43, No. 2 (Spring 1974), pp. 139-55

wide unrestricted (color-blind) Open Enrollment plans indicates that this approach has not generally resulted in increased integration in individual schools even though significant proportions of the total student populations voluntarily transferred to non-neighborhood schools; second, that if school integration can be achieved through a program of voluntary compliance, that such a program is preferred to a nonvoluntary program which accomplishes the same objectives at a similar cost; and third, that our society has adopted the goal of integrating our public schools as a necessary condition for the achievement of an integrated society.

The fiscal incentives discussed in this paper are of two major types: adjustments in the direct cost to the family of utilizing the transfer option through a system of transfer fees and bonuses, and adjustments in property tax bills for school purposes in integrating neighborhoods through adjustments in state aid formulas. In each case the broad outline of a specific plan will be presented and evaluated in terms of its probable effectiveness.

The author recognizes that there are important legal and political dimensions to all of the issues discussed in this paper. Nevertheless, these issues will be largely ignored at this time partially because the author lacks the competence to address them and secondly because the economic issues are of sufficient complexity to make a narrower focus desirable in this initial consideration of these issues.

The paper begins with a description and general evaluation of Open Enrollment plans with particular emphasis upon the experience of the Milwaukee Public Schools in the past decade. An economic model of transfer behavior is presented which permits an examination of the expected impact of fiscal incentives which, in effect, change the relative prices of segregated and integrated schools. Next an economic model of residential choice is used to examine the interaction between changes in the racial and socioeconomic composition of schools and usual resultant change in the neighborhood. Finally, the potential of fiscal incentives to constrain and perhaps limit this process is examined.

Open Enrollment in Theory and Practice

Large city school systems which have attempted to improve racial balance in their schools, without redefining neighborhood attendance areas, have primarily relied upon two alternatives--mandatory busing and voluntary Open Enrollment. It seems fair to conclude at this point that neither have been very successful. Most busing plans have been the object of intense political controversy and doubtlessly, in some cases, even heightened racial tensions. On the other hand, Open Enrollment plans have not created nearly so much acrimony but neither have they been associated with widespread improvements in integration. For example, in a recent survey of desegregation techniques in urban schools, G. Foster concludes that Open Enrollment "...has never accounted for a significant amount of desegregation."[3] The skepticism on the part of the U.S. Commission on Civil Rights toward the potential of Open Enrollment as a means to desegregation is revealed in its delineation of six major limitations of this policy as a means to integrated schools.[4] Nevertheless, not everybody is ready to write off Open Enrollment. In a recent article in The Public Interest, John McAdams argues that Open Enrollment has been successful in several instances and could be made viable in many others.[5] McAdams suggests that two types of Open Enrollment plans must be distinguished: color blind programs, where transfers are permitted without regard to the racial composition of the sending or receiving school; and noncolor blind programs, where transfer approval is contingent upon the racial composition of both the sending and receiving schools. In every

[3]G. Foster, "Desegregating Urban Schools: A Review of Techniques," Harvard Educational Review, Vol. 43, No. 1 (February 1973), pp. 5-36.

[4]U.S. Commission on Civil Rights, Racial Isolation in the Public Schools, (Washington, D.C., U.S. Government Printing Office, 1967), pp. 147-49.

[5]John McAdams, "Can Open Enrollment Work?", The Public Interest, No. 37, (Fall 1974), pp. 69-88.

case where Open Enrollment has resulted in significant gains in school integration, the program was not color blind and had specific desegregation objectives. Conversely, in those communities where Open Enrollment was administered without specific objectives with respect to improving racial balance, little if any progress toward desegregation was made.

Milwaukee, which has had a color blind Open Enrollment program since 1964, provides a representative example of what happens under plans of this type. Under the Milwaukee plan, students are allowed to transfer to any other underutilized school in the system. Although parents must provide for the child's transportation to the non-neighborhood school and must secure a personal interview with the principals of both the sending and receiving schools, no reason need be given to justify the transfer nor does the race of the applicant make any difference.[6] In January 1972, the Superintendent of Milwaukee Public Schools released a study of the actual use and effect of Open Enrollment upon (among other things) school population and racial proportions.[7] The study concludes that as a result of the Open Enrollment policy:

1) most schools had some transfers in and out
2) the black student population was more dispersed but that significant changes in racial balance are limited to a few schools
3) many whites previously in predominately black schools transferred to other schools
4) overcrowding in several schools was alleviated
5) in the elementary schools, the effect of transfers upon racial balance has been insignificant except in a few instances.[8]

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[6]There have been a few recent exceptions to this general rule. Student bodies in several schools with 40 to 60 percent minority students have been "frozen" to prevent the school from "tipping" and becoming increasingly minority populated.

[7]Superintendent, Milwaukee Public Schools, Open Enrollment Study, (January 1972), mimeo. This study was made at the directive of the Milwaukee Board of School Directors, 7 September, 1971.

[8]Ibid, p. 14.

These results seem to support McAdams' generalization concerning color blind programs -- that they tend to reproduce the initial degree of segregation because of the general unwillingness of people to voluntarily act in such a way as to produce desegregation.[9] But even if we accept these conclusions with respect to desegregation, there are still grounds for support of the principle of voluntary choice of educational outcomes underlying Open Enrollment. For example, the fact remains that approximately 15 percent of the total population of the Milwaukee Public Schools utilize the transfer option. It seems highly probable that many families use the option to secure better education for their children quite apart from the racial mix of the school. If this is true, the voluntary choice aspect of Open Enrollment is worth preserving. Nevertheless, the question which remains to be answered is, can a largely volunteer program be a vehicle for achieving integrated schools. The remainder of this paper is addressed to this question.

Economic Model of School Transfers

All families with school age children must decide where their children will attend school. Choices are usually restricted to the neighborhood public school or a nonpublic school, but under Open Enrollment the choice is enlarged to include non-neighborhood public schools.[10] This choice may be viewed as an economic decision. Conceptually, the choice is no different than deciding which grocery store or medical doctor to patronize. Every school in the choice set is viewed by the family in two major dimensions: 1) the price of attending that particular school, and 2) the

[9]Op. Cit., p. 69. This conclusion should not be interpreted as a criticism of the Milwaukee School System for adopting an unrestricted Open Enrollment policy. A fair criticism of this policy decision would have to be made within the context of an explicit statement by the School Board as to its goals with respect to Open Enrollment. The author is unaware of any such statement.

[10]At this point we will ignore those families who choose nonpublic schools.

quality of educational services received at that school. The price of schooling to a family includes property taxes for school purposes, transportation expenses if they are not publically provided, and in the case where transfers are permitted, any information and application costs which must be incurred to make an informed decision and to actually secure the transfer. The outcome of any educational process is usually described in terms of the amount of learning which occurred -- the more learning which results, the greater the quantity of education received. Learning, however, is usually subdivided into cognitive learning (acquiring the ability to read, write, and calculate) and noncognitive learning (changes in values, attitudes, interests, and motivations).[11] Thus family perceptions of educational quality will be regarded as having both cognitive and noncognitive dimensions.

The "rational" consumer of educational services then proceeds to compare schools and select that school which maximizes net educational benefits. A simple example may help illustrate this point. Consider a school district that is divided into two attendance areas (A and B). Assume further that attending a non-neighborhood school is more costly, e.g., increased transportation costs. Under these circumstances a resident of attendance area A would enroll their child in attendance area B only if the value placed upon the additional educational services received in B equal or exceed the additional cost of attending the school in B. It follows then that if attending a non-neighborhood school is unusually more costly to the family (this will usually be the case in the absence of fiscal incentives) the decision to transfer would only be made to schools perceived to be superior to the neighborhood school. It also follows that in any school district with an unrestricted Open Enrollment policy, and in the absence of any fiscal incentives, the transfer traffic predicted by this model would be that of a one-way street -- from the worst schools

[11] Sarane S. Boocock, "Toward a Sociology of Learning: A Selective Review of Existing Research," Sociology of Education, Vol. 39, No. 1, (Winter, 1966), pp. 1-2.

to the best. Further, if perceptions of school quality by all ethnic groups are importantly influenced by the ethnic composition of the school, transfers on the part of one group may lead to transfers by another group. Again one would expect these transfers to be predominately **unidirectional** (receiving schools having smaller minority populations than sending schools) and the resulting ethnic balance after all transfers are completed do not differ appreciably from the initial distribution by ethnicity. According to the literature cited earlier, this is a fair summary of how unrestricted Open Enrollment plans have worked out thus far.

It can also be argued that the transfer activity described above can be expected to have effects which extend beyond the school doors in question to the neighborhood at large. To see this we have to expand the focus of our consumer choice model to include the choice of real property. Although most of the following discussion will be limited to the choice of a residence, the analysis is easily extended to urban properties of all types.

Economic Model of Residential Choice

When a family purchases a residential dwelling unit they acquire in addition to a given quantity of shelter: an economic[12] and social location, the right to receive local public services (schools, parks, police and fire protection, etc.), and the obligation for local taxes levied on the property. Thus we can say that housing, as a commodity, is properly viewed as a multidimensional "bundle" of attributes including many things other than the physical characteristics of the dwelling. If housing is viewed in this manner by most families, it would then be reasonable to expect actual market prices of specific dwelling units to reflect variations in all of these characteristics. For example, suppose in the same community there are two identical houses and that each is located in a different

[12]That is, proximity to employment and shopping centers.

attendance area (again A and B). Assume that transfers between attendance areas are not allowed. Assume further that the immediate neighborhood surrounding both dwellings are similar, that non-school local services are identical, and that both locations are equally accessible to major shopping and employment centers. Finally, let us suppose that although the property tax levy is the same on both dwellings, the schools in the two attendance areas are not commonly perceived to be of equal quality -- rather that schools in A are somehow thought to be significantly better than schools in B.[13] Under this set of circumstances the model described above would predict that the market sale price of the dwelling in attendance area A would tend to exceed that of the dwelling in B. This differential would exist because potential buyers would be willing to pay a premium to live in A or conversely would be willing to live in B only if the sale price (relative to A) is discounted to compensate for the inferior quality of schooling available. Thus we say that the superior quality of the schools in attendance area A are capitalized into the sale price of the dwellings in A as a result of the competitive bidding of potential buyers in this market. If this example were restated such that the only difference between the two dwellings was the property tax bill for school purposes, the same result would obtain. That is, the model would predict that competitive bidding would establish a sale price differential in favor of the dwelling with the lower tax bill -- this being the case of capitalization of a tax differential.[14]

This model does not predict the magnitude of these sales price differentials; it only suggests the presence of the differentials and their directions. The magnitude of the differentials will depend upon, among other things, the similarity

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[13] This general perception might stem from a variety of relative comparisons regarding such things as: average class size, average test scores on standardized tests, proportion of graduates going on to college, racial and socioeconomic composition of the student bodies, extent of curriculum diversity, age and state of repair of the physical facilities.

[14] In more technical language, we would say that the market value differential equals the time discounted expected stream of service or property tax differentials. A more complete discussion of tax and benefit capitalization may be found in: R.A. Musgrave and P.B. Musgrave, Public Finance in Theory and Practice, (New York: McGraw-Hill, 1973), pp. 413-17.

and intensity of preferences for education on the part of potential buyers. Of course, whether such a differential actually exists is an empirical question. Although much empirical work remains to be done in this area, recent research tends to confirm the presence of both tax and service level capitalization and that it can account for significant variations in the market values of otherwise similar parcels of real property.[15]

Neighborhood Tipping -- An Application of the Residential Choice Model

In a recent paper on the changing racial make up of selected schools and neighborhoods in Milwaukee under Open Enrollment, Robert Wegmann explains the interacting processes of schools in a particular neighborhood becoming increasingly minority dominated until a "tipping point" is reached after which school and the neighborhood rapidly become almost totally minority occupied.[16] Wegmann emphasizes that the racial mix of the schools almost always leads that of the neighborhood; but once the tipping point (usually thought of as somewhere in the range of 30-40 percent minority students) is reached in the schools, the neighborhood also begins a drastic change as whites flee and nonwhites move into the newly available housing. Wegmann concludes, in part, that:

> Unless the school system is willing to intervene in order to hold the percentage back below the tipping point, the school will not only not be 'naturally' integrated, it will not be integrated at all; and neither will neighborhood integration have much change of survival.[17]

Although it would be naive to ignore the reality that some of this white flight is rooted in racial prejudice and the attendant desire to reestablish social

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[15] A well known example of this research is Wallace E. Oates, "The Effects of Property Taxes and Local Public Spending on Property Values: An Empirical Study of Tax Capitalization and the Tiebout Hypothesis," Journal of Political Economy, Vol. 77, No. 6, (Nov./Dec. 1969), pp. 957-71.

[16] Robert G. Wegmann, "Neighborhoods and Schools in Racial Transition" (mimeo.) 1974. Professor Wegmann is currently Associate Professor of Sociology, University of Houston at Clear Lake City. He is a former member of the Milwaukee Board of Education

[17] Ibid, p. 13.

distance between themselves and those perceived to be inferior; nevertheless, any families who might otherwise want to remain in an integrated neighborhood are faced with a powerful incentive to join the fight. The incentive is, as Anthony Downs puts it, "The widely-held belief by American homeowners that any sizable entry of low-income households into their neighborhoods will depress the value of their homes."[18] The strength of this incentive to move is illustrated by the recent estimate by the Internal Revenue Service that real estate comprised 58.0 percent of the net worth of the poorest class of wealthholders included in the sample in 1969.[19] For all wealthholders included in the sample, real estate accounted for 23.6 percent of total net worth in 1969.[20] In effect, these families believe they are being asked to surrender a major fraction of their life's savings (equity in their homes) to achieve integration for the benefit of society at large.[21] At the same time they see that upper income residents of practically all white suburbs are not being asked to make any sacrifices. That they should choose to move in an attempt to avoid bearing this burden themselves should not surprise us.

The belief that property values will fall becomes a self-fulfilling prophecy as these frightened homeowners offer their properties for sale and accept low offer prices in an attempt to get out before the situation deteriorates even further. In this fashion, what was for a short period of time an integrated neighborhood, soon becomes segregated again. In the absence of specific intervention by the public sector we are doomed to see the process repeated over and over again.

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[18]Anthony Downs, "Residential Segregation: The Effects on Education," Civil Rights Digest, Vol. 3, No. 4 (Fall 1970), pp. 2-8.

[19]The Internal Revenue Service study of wealthholdings is limited to those with a gross wealth of at least $60,000. The "poorest" class of these wealthholders noted above are those with net wealth less than $60,000.

[20]U.S. Internal Revenue Service, Statistics of Income 1969: Estate Tax Returns (Washington, D.C., U.S. Government Printing Office, 1972), p. 18.

[21]The actual impact upon property values as a result of changing racial and socioeconomic composition is a subject we know very little about. One recent study of three inner suburbs in St. Louis is perhaps the best so far: Solomon Sutker and Sara Smith Sutker (eds), Racial Transition in the Inner Suburb (New York: Praeger Publishers, 1974), chapter 4.

Both McAdams and Wegmann agree that for Open Enrollment to help achieve integration, it must be modified. The question which remains is -- what form should the modification take. The remainder of this paper is devoted to a critical evaluation of several alternatives. In this discussion each alternative is viewed from the perspective of how well it provide for: positive incentives for families to enroll their children in integrated schools, provisions which protect residents of integrated neighborhoods from economic losses due to changes in property values, freedom of choice on the part of each family to select the most desirable educational setting for its children, and equalization of fiscal resources for school finance.

Noncolor-Blind Open Enrollment

The most obvious policy modification is to adopt specific goals and/or standards with respect to the ethnicity of each school. This could be done either by designating specific sending schools and receiving schools or by disallowing any transfers which worsen the racial balance (i.e., relative to the standard adopted) in any school. Although both Wegmann and McAdams favor this approach, or some variant of it, it fails to respond affirmatively to any of the criteria noted above. There are no positive incentives for any family to seek an integrated school, nor would the fears of property owners in integrating neighborhoods be stilled. In addition, families who have a nonracially-determined preference for a non-neighborhood school would be prevented from sending their child to that school unless it also happened to improve racial balance. The potential for success of any policy which fails to incorporate any of these characteristics is surely open to question.

Color-Blind Open Enrollment with Fiscal Incentives

In an earlier section of this paper it was suggested that families view education for their children in terms of the price they must pay and quantity of educational services received. A school is selected from among the choice set on the basis of the magnitude of the net benefit received. We will examine the

potential for fiscal incentives in affecting this decision. In the following discussion it will be important to separate economic decision makers into two groups: residents with school-age children, and all other real property owners. The former are considered first. We begin by considering a representative family in a hypothetical situation. The choice set for this family contains five schools: the neighborhood school (N), three non-neighborhood public schools (A,B, and C), and a private school (P). Table 1 contains the benefits and costs of these schools to this family.

Table 1

Hypothetical Benefits and Costs of Educational Opportunities

School	Benefits	Costs				Net Benefit (1) - (5)
	(1)	School Property Taxes (2)	Transportation Expense (3)	Tuition (4)	Total Costs (5)	(6)
N	$700	$500	-0-	-0-	$500	$200
A	700	500	50	-0-	550	150
B	600	500	150	-0-	650	-50
C	500	500	100	-0-	600	-100
P	1000	500	50	500	1050	-50

The dollar value of educational "benefits" produced by any school can be interpreted as the maximum dollar bid the family would be willing to make for a place in that school if those places were let at auction.[22] This particular example has been constructed on the assumption that families must provide for their child's transportation. Under this set of circumstances the family would choose the neighborhood school (N) where net benefits are maximized at $200.

[22]It causes no difficulty that school places are not actually awarded in this fashion. We will also assume that the valuation a family places upon a particular school is independent of the other alternatives available to it.

Suppose next that the racial composition of the neighborhood school (N) changes and coincidently the family revises downward its estimate of the value of education received. If the value of benefits received at (N) are reduced by $50 or more, the family would now maximize its net benefit by transferring the child to school A. To the extent that parent's perceptions of school quality are importantly influenced by the racial and socioeconomic composition of the school, transfers out will always be induced by transfers in which change this composition. But in view of the model of educational choice developed above, this tendency is not inevitable if, for example, the total cost is made to vary in such a way as to make the integrated school cheaper to attend (thus raising net benefits) and conversely the segregated school more expensive to attend (thus lowering net benefits). In this particular example, had the total cost of attending the now integrated neighborhood school declined by say $100 the evaluation of benefits received by the family would have had to have fallen by at least $150 before a transfer becomes attractive.

Although total direct costs of education to the family could be raised by varying any component (property taxes and/or transportation expenses), perhaps the easiest way to accomplish this would be to adopt a system of transfer fees and bonuses. Such a scheme oriented toward achieving racial balance might work as follows. The ethnic composition (proportion minority and non-minority) of the school district population as a whole is adopted as the standard (reference point) for each school. Transfers to any underutilized school are permitted as before but with the proviso that any family requesting a transfer which moves the receiving school further from the standard must pay a transfer fee (say of $100) and those requesting a transfer which results in an improvement in racial balance in the receiving school are awarded a bonus in the same amount. For one example of how this plan would work, consider a school which is 50 percent minority and 50 percent non-minority with a racial standard of 40 percent minority and 60 percent non-minority. Under these circumstances further tipping is mitigated

because any minority student wishing to transfer in will have to pay the transfer fee and conversely the school becomes more attractive to a non-minority family because they would receive a transfer bonus if they elect the school. This plan has some additional appeal in as much as those who do not contribute directly to the achievement of racial balance do contribute indirectly in as much as their transfer fees will pay for (or help pay for) the transportation expenses of those who desire to attend racially-balanced schools. One obvious additional element in such a plan which would further increase net benefits attainable in integrated schools would be to provide for transportation expense subsidies for those students whose transfer moves the receiving school toward the ethnic standard.

Although it would doubtlessly be more complicated, there is no reason why a very similar plan of differential pricing could not be worked out to promote the integration of high achieving and low achieving youngsters. In this case the transfer standard (e.g., percent reading below grade level) would probably have to be applied for each grade separately. A recent study of educational settings and learning in the Philadelphia Public Schools suggests that some important learning gains for all students result (especially in the elementary schools) in classrooms which are integrated both with respect to race and educational achievement levels.[23]

One immediate question emerges -- how large would these transfer fees and bonuses have to be in order to have a significant impact upon transfer behavior and thus racial and socioeconomic balance? The research on actual Open Enrollment transfer activity in Milwaukee Public Schools being currently undertaken by Moody and this author may provide some useful estimates of at least the minimum value of such a fiscal incentive.[24]

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[23] Anita A. Summers and Barbara A. Wolfe, "Which School Resources Help Learning? Efficiency and Equity in Philadelphia Public Schools," Business Review, Federal Reserve Bank of Philadelphia, February 1975.

[24] A preliminary report on this research is contained in: James Moody, "Open Enrollment: A Study in Revealed Preferences for Educational Outcomes in a Big City School System" (mimeo).

We turn now to the second major group of economic decision makers the community viz., real property owners with or without school-age children. It is uncommon for a discussion of educational policy to include in its consideration families without school-age children, yet such an omission in the case of Open Enrollment has serious consequences. There is no reason to believe that the only people to flee (or that even the first to flee) in racially-changing neighborhoods are those with children in the public schools. The incentive to leave the neighborhood is the same for all property owners if as Downs suggests, they fear for their property values. It will never be possible, nor indeed desirable, to prevent property owners from selling and moving elsewhere if they choose to do so. But at the same time Open Enrollment will never achieve integration if nothing is done to remove this legitimate fear that property values (for all parcels) will plummet as integration proceeds. Here again a fiscal incentive is needed to eliminate this underlying contributing factor of neighborhood change.

Although there is some question as to what actually happens to property values as a neighborhood approaches and then passes the "tipping point", all that is required for flight to result is that current residents expect property values to fall. In the language of the property value model discussed earlier, the changing ethnic composition of the neighborhood is being capitalized into lower property values. It follows from the same model that if property tax rates were lowered in this integrating neighborhood, these lower property tax bills would have the offsetting capitalization impact of raising property values. Thus, at least in principle, property tax rates could be adjusted so as to exactly offset any decrease stemming from changes in the school and/or neighborhood ethnic balance.

Actually implementing such a system of appropriately varying property tax rates would of course be a complex procedure. To begin with, more detailed research is needed on the sensitivity of property values to changes in racial and socioeconomic

characteristics of school and their surrounding neighborhoods. The results of such research would then provide estimates of the required tax adjustment if the capitalization effects assumed above are in fact observable. It is comforting to note that if the previously described scheme of differential school pricing actually resulted in fairly uniformly integrated schools, the need for this tax adjustment offset to potentially falling property values would disappear. In other words, the second scheme is required only to the extent that the first fails to accomplish its objective.

The obvious public authority to assume responsibility for making such tax adjustments is the state. All states engage in some form of aid to public education. The most common form of aid is the provision of matching grants to insure that some predetermined level of expenditure per pupil is being met. In the last few years, countless court suits have been brought which would generally require the role of the state as a wealth equalizer (with respect to school finance) be considerably expanded. The two most famous cases thus far are Serrano vs. Priest in California and Rodriguez vs. San Antonio in Texas. As a result of these legal actions there has been a distinct movement, at least in certain states, toward an expanded role in wealth (tax base) equalization. Wisconsin has, for example, recently adopted a formula for district power equalization as a purposeful step in this direction. The scheme of property tax subsidy for changing neighborhoods described above could also be included within the same general approach. As power equalizing works now in Wisconsin, state aid received by any district is determined by property valuation (property wealth) per pupil, and the cost of schooling inputs. To achieve the goal described earlier all that has to be done is to also include those racial and socioeconomic factors, if any, which are also found to be significantly related to changes in property values.

Even apart from the technicalities of such an approach there is one major additional problem with such a scheme in any big city school district which must be faced. The induced changes in property values thatwe have been discussing are usually highly localized in a geographic sense, that is, within the limited number of city blocks which comprise a given neighborhood. This means that any reduction in school property tax costs must and should be focused on the properties within this neighborhood. It will do no good to have a tax reduction (increase in state aid) dissipated throughout the whole community. This means that some way would have to be found to subdivide, at least for some tax purposes, large school districts into smaller neighborhood districts.

Finally, there is the question of whether such a system of fiscal incentives can make Open Enrollment work if the district in which the policy is being implemented is just one of several school districts in a single metropolitan area. The answer in general I think must be no. It would surely often be the case that the family faced with paying several transfer fees would simply move out to a suburban district. There is the related problem which many big city school districts find themselves faced with today and that is that the racial mix of the district student population is such that if every school in the district were in perfect racial balance, every school would be beyond the tipping point. Surely if our experience to date with voluntary programs like Open Enrollment tells us anything it is that schools must be prevented from exceeding these tipping points. The only alternative available in these circumstances are plans which are metropolitan in scope.

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